REPORT OF EXAMINATION
OF THE

21st CENTURY INSURANCE COMPANY

AS OF
DECEMBER 31, 2005

Participating State
and Zone:

California

Filed June 7, 2007

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Los Angeles, California
May 16, 2007

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Kent Michie
Secretary, Zone IV-Western
Commissioner of Insurance
Department of Insurance, State of Utah
Salt Lake City, Utah

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary and Commissioner:

Pursuant to your instructions, an examination was made of the

21st CENTURY INSURANCE COMPANY

(hereinafter also referred to as the Company) at the statutory home office and primary location of its books and records, 6301 Owensmouth Avenue, Woodland Hills, California 91367.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination was conducted concurrently with an affiliate and included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; loss experience; growth of company; business in force by states; and sales and advertising.

SUBSEQUENT EVENTS

On December 23, 2006 the Company declared and paid a $110 million dividend to 21st Century Insurance Group (Parent). Concurrently, the Parent repaid the $86 million outstanding balance for the Intercompany Term Loan Credit Agreement owed to the Company. These transactions were accomplished by the Company paying the difference of $24 million to the Parent. The dividend was below the threshold which would require prior approval from the California Department of Insurance.

On January 25, 2007 a press release indicated American International Group (AIG) had submitted an unsolicited proposal to the board of directors of 21st Century Insurance Group (Parent) to acquire the remaining shares of the Parent's common stock that AIG and its subsidiaries do not already own for $19.75 per share in cash.

The Parent's board of directors formed a special committee comprised entirely of independent and outside directors for the purpose of considering the proposal from AIG.

On May 15, 2007 a press release indicated that the Parent and AIG had entered into a definitive merger agreement providing for the acquisition by AIG of all of the outstanding shares of common stock of the Parent not currently owned by AIG for $22.00 per share in cash. Upon completion of the transaction, the Parent will become a wholly owned subsidiary of AIG. The acquisition is subject to customary conditions and approvals.

COMPANY HISTORY

The Company was incorporated in California on November 1, 1967 for the purpose of conducting property and casualty insurance business, and commenced business on December 31, 1968 for the purpose of conducting property and casualty insurance business. The Company succeeded 20th Century Insurance Exchange, a reciprocal organized on August 15, 1957.

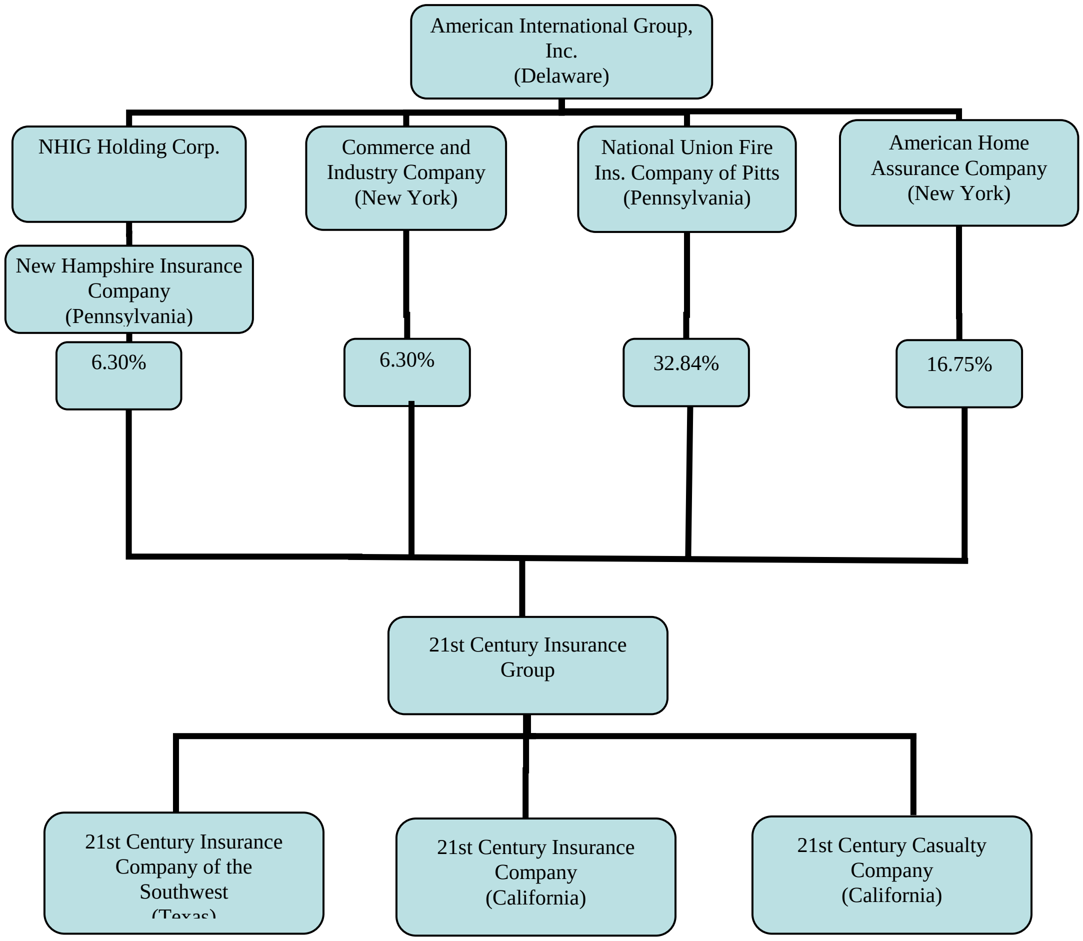
Effective January 24, 2000, the Company and its parent changed their names from 20th Century Insurance Company to 21st Century Insurance Company and from 20th Century Industries to 21st Century Insurance Group (Parent), respectively. Effective December 4, 2003, the Parent was reincorporated under the laws of the State of Delaware. Through several of its subsidiaries, American International Group (AIG) currently owns approximately 62% of the Parent's outstanding common stock.

In December 2003, the Company received a capital contribution from its Parent in the amount of $37,917,420.

MANAGEMENT AND CONTROL

The Company is a wholly-owned insurance subsidiary of the 21st Century Insurance Group, an insurance holding company incorporated in Delaware.

The following organizational chart depicts the Company's relationship within the holding company system:



(*) all ownership is 100% unless otherwise noted

Management of the Company is vested in an eleven-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2005 follows:

Directors

Name and Residence	Principal Business Affiliation
Robert M. Sandler New York, New York	Chairman of the Board 21st Century Insurance Group Executive Vice President American International Group, Inc.

Name and Residence	Principal Business Affiliation
Bruce W. Marlow Los Angeles, California	Vice Chairman of the Board, Chief Executive Officer and President 21st Century Insurance Group
Steven J. Bensinger New York, New York	Executive Vice President, Chief Financial Officer, Treasurer and Comptroller American International Group, Inc.
John B. De Nault, III Orange, California	Self Employed
Carlene M. Ellis El Dorado, California	Intel Corporation (Retired)
R. Scott Foster, M.D. Stockton, California	Private Practice
Roxani M. Gillespie San Francisco, California	Barger & Wolen, LLP
Jeffrey L. Hayman Tokyo, Japan	Chairman, AIU Insurance Company – Japan Regional President and Chief Operating Officer, General Insurance AIG Companies Far East
Phillip L. Isenberg Sacramento, California	President, Isenberg/O'Haren
James P. Miscoll (*) San Rafael, California	Bank of America (Retired)
Keith W. Renken Arcadia, California	Director, East West Bank Adjunct Professor, University of Southern California

(*) Resigned January 20, 2006, replaced by Thomas R. Tizzio

Principal Officers

Name	Title
Bruce W. Marlow	President and Chief Executive Officer
Lawrence P. Bascom (*)	Senior Vice President, Chief Financial Officer and Treasurer
Michael J. Cassanego	Senior Vice President, General Counsel and Secretary
Richard A. Andre	Senior Vice President, Human Resources
Dean E. Stark	Senior Vice President, Claims
Michael T. Ray	Senior Vice President, Customer Processes
John L. Ingersoll (**)	Vice President, Current Customer and New Customer Marketing
Marlis S. Kerby	Vice President, Information Technology
Allen Lew	Vice President and Chief Actuary
John M. Lorentz	Vice President, Finance
Caren L. Silvestri	Vice President and Product Manager

(*) Employment terminated, effective April 7, 2006, replaced by Steven P. Erwin

(**) Employment terminated, effective October 9, 2006

Contingencies

The Company is named as a defendant in lawsuits related to claims and insurance policy issues, both on individual policy files and by class actions related to the Company's business practices. Many suits seek unspecified extra-contractual and punitive damages as well as contractual damages under the Company's insurance policies in excess of the Company's estimates of its obligations under such policies. The Company is unable to estimate the amount or range of loss that could result from an unfavorable outcome on these suits and it denies liability for any such alleged damages. The Company has not established reserves for potential extra-contractual or punitive damages or for contractual damages in excess of estimates the Company believes are correct and reasonable under its insurance policies. Nevertheless, extra-contractual and punitive damages, if assessed against the Company, could be material in an individual case or in the aggregate. The Company may choose to settle litigated cases for amounts in excess of its own estimate of contractual damages to avoid the expense and risk of litigation. Other than possibly for the contingencies discussed below, the Company does not believe the ultimate outcome of these matters will be material to its results of operations, financial condition or cash flows.

California Senate Bill 1899 (SB 1899), effective from January 1, 2001 to December 31, 2001, allowed the re-opening of previously closed earthquake claims arising out of the 1994 Northridge earthquake. More than 99% of the claims submitted and litigation brought against the Company as a result of California SB 1899 have been resolved. The Company's loss and loss adjustment expense (LAE) reserves for SB 1899 claims were increased by approximately $0.4 million in the fourth quarter of 2005 based on a revised estimate of the cost of resolving the few remaining claims. The Company's total loss and LAE reserves for SB 1899 as of December 31, 2005 and December 31, 2004, were $0.5 million and $4 million, respectively. As of December 31, 2006, all SB 1899 claims were resolved.

Master Lease Agreement

On December 31, 2002, the Company entered into a sale-leaseback transaction with General Electric Capital Corporation (GE) for $15.8 million of equipment and leasehold improvements and $44.2 million of software owned by the Company which was sold to General Electric and subsequently leased back from GE. The agreement calls for an interest-only payment on February 14, 2003, of $0.3 million and, commencing on the same date, 59 monthly payments of approximately $1.2 million with a purchase option at the end of the term. As of December 31, 2005, the remaining minimum lease payments were $27.9 million.

The lease includes a covenant that if statutory surplus falls below $300 million, or if the net premiums written to surplus ratio is greater than 3.8 to 1, or if American International Group (AIG) is no longer a majority stockholder, the Company will either deliver a letter of credit to the lessor or pay the lessor all rent and other sums due and unpaid as of the first rent payment date following the occurrence of one of the above. For statutory purposes, the above transaction is accounted for as an operating lease whereby lease payments are charged to operations when paid.

Management Agreements

Intercompany Term Loan Credit Agreement: In October 2004, an intercompany term loan line receivable from 21st Century Insurance Group (Parent) was structured. Under the terms of the agreement, the Parent can borrow up to $40 million from the Company. Proceeds from the loan were used to provide working capital for projects to modify, update and improve information technology for use by the Parent and its affiliates, and for other purposes. The term of the loan line is 12 months with automatic renewal, while the note's term of the note is 3 years. The effective interest rate on the note is the three-year Applicable Federal Rate (AFR) at the time of the draw, plus a margin of 1.58%. The AFR is the minimum interest rate under tax law that avoids the IRS below-market interest loan rules. Interest is accrued and payable at the end of the term of the note.

In December 2004, the Company loaned the Parent $18 million under the term-loan agreement bearing interest at 4.06%. In 2005, the Parent borrowed an additional $15 million under the term loan agreement with interest rates varying from 4.66% to 5.04%. In December 2005, an amendment was approved by the California Department of Insurance (CDI) that increased the maximum amount the Parent could borrow from the Company from $40 million to $150 million. The Parent then borrowed an additional $25 million bringing the total intercompany term loan balance to $58 million with interest rates varying from 4.06% to 5.92%. Future commitments to repay the intercompany term loan are as follows: 2007 - $20.3 million; 2008 - $47 million. The entire $58 million receivable due from the Parent is treated as a non-admitted asset. As discussed in the Subsequent Events section of this report, the entire amount of the term loan agreement was settled in December 2006.

Lease Agreement: Effective December 31, 2003, the Company entered into an agreement with its Parent whereby the Company leases certain software from the Parent. The value of assets included in this lease as of December 31, 2005 and 2004 were $106.7 million and $100.5 million, respectively. Rent is payable monthly using a rate of 7.02% per annum on the asset balance plus any subsequent additions. This agreement was approved by the CDI on January 2, 2004.

Services Agreement: Effective December 31, 2002, the Company entered into a services agreement with its affiliates. Under this agreement, the Company provides administrative and facilities services to its affiliates. The affiliates, in turn, reimburse the Company for its actual costs in providing the services. The agreement was approved by the CDI on October 23, 2002.

Tax Sharing Agreement: Effective December 31, 2002, the Company and its affiliates entered into a consolidated federal income tax agreement with the Parent. The agreement calls for each company's share of taxes to be calculated separately and settled with the Parent 45 days after the filing of the tax return. This agreement was approved by the CDI on October 29, 2002.

Investment Advisory Agreement: Effective October 15, 2003, the Company and its affiliates entered into an agreement with AIG Global Investment Corporation (AIGGIC), a corporation organized under the laws of New Jersey to provide investment management services to the Company and its affiliates. AIGGIC receives an advisory fee which is based on the .065% per annum of the market value, including cash and accrued interest, of the Company's portfolio assets under management. The agreement was approved by the CDI on October 8, 2003. Investment management and accounting expense were $0.9 million and $0.9 million in 2005 and 2004, respectively.

CORPORATE RECORDS

The Company's board actions regarding the authorization and approval of excess funds investments in electronic computer or data processing machines in excess of $250 thousand did not satisfy the requirements of California Insurance Code (CIC) Sections 1200 and 1201. The Company's minutes failed to document the authorization or approval of this excess funds investment which is in violation of CIC Section 1200. In addition, specific references to amounts, facts and the value of the excess funds investments were not included as required under CIC Section 1201.

It is recommended that the Company implement procedures to ensure future compliance with CIC Sections 1200 and 1201.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2005, the Company was licensed to write property and casualty lines of business in 29 states and the District of Columbia. The following is a listing of the states in which the Company is licensed:

Alaska	Kansas	Oregon
Arkansas	Kentucky	Pennsylvania
California	Maryland	South Carolina
Colorado	Michigan	South Dakota
Connecticut	Missouri	Texas
Delaware	Nebraska	Utah
Georgia	Nevada	Vermont
Idaho	North Dakota	Washington
Illinois	Ohio	Wisconsin
Indiana	Oklahoma	

In 2006, the Company became licensed in the following states: Alabama, Florida, Iowa, Maine, Minnesota, New Jersey, New York, Tennessee and West Virginia.

In 2005, the Company wrote $1.2 billion of direct premiums. Of the direct premiums written, $1.2 billion (97.4%) was written in California, $11.1 million (.89%) was written in Illinois, $8.1 million (.64%) was written in Ohio and $13.5 million (1.08%) was written in the remaining states.

The Company directly markets and underwrites private passenger automobile and personal umbrella insurance. The Company began offering motorcycle insurance in May 2002. The Company ceased providing homeowner's coverage as a result of a management decision made in 2001. The non-renewal of policies began in February 20, 2002, with the last policy expiring February 20, 2003. Effective January 1, 2002, the Company entered into a 100% quota-share agreement with Balboa

Insurance Company (Balboa), a subsidiary of Countrywide Credit Industries, Inc. (Countrywide), where 100% of homeowner unearned premium reserves and future related losses were reinsured by Balboa. Substantially all of the non-renewed policyholders were offered homeowner coverage through an affiliate of Countrywide. The reinsurance agreement with Balboa ended on February 20, 2003.

REINSURANCE

Assumed

The Company has two separate 100% quota-share reinsurance agreements with its affiliated companies, 21st Century Casualty Company and 21st Century Insurance Company of the Southwest, which includes 100% assumption of all new and renewal personal automobile policies written by these affiliates.

California Insurance Code (CIC) Section 1011(c) specifies that submission be made to the Commissioner in which a company reinsures substantially its entire property or business in or with the property or business of any other person. The Company failed to file and seek prior approval from the California Department of Insurance (CDI) on the 100% quota-share agreement with 21st Century Insurance Company of the Southwest as required by the CIC Section 1011(c). As a result, late filing fees may be assessed by the CDI. It is recommended that the Company comply with CIC Section 1011(c). The Company has now filed the quota-share agreement with the CDI.

Ceded

The following is a summary of the principal ceded reinsurance treaties inforce as of December 31, 2005:

Type of Contract	Reinsurer's Name	Company's Retention	Reinsurer's Maximum Limits
Auto Physical Damage Catastrophe (CAT) Excess of Loss	Transatlantic Re-insurance Co. (20%) Folksamerica Re-insurance Co. (20%) National Union Fire I.C. of Pittsburgh (60%)	$20 million each loss occurrence	100% of $45 million excess of retention each and every loss occurrence
Personal Excess Liability Policy (PELP) 90% Quota Share	Swiss Reinsurance America Corp. (55%) Hannover Ruckversicherungs AG (35%)	10% each loss occurrence	$5million per underlying policy

As of December 31, 2005, the credit for all ceded reinsurance totaled $7.8 million or 1.14% of policyholder's surplus with $5.2 million of the ceded credit fom nonaffiliated admitted reinsurers.

A review of the Company's reinsurance agreements currently in force disclosed that they do not comply with Statements of Statutory Accounting Principles (SSAP) No. 62, paragraph 7, which states that "Reinsurance contracts shall not permit entry of an order of rehabilitation or liquidation to constitute an anticipating breach by the reporting entity, nor grounds for retroactive revocation or retroactive cancellation of any contracts of the requiring entity." The agreements include a special termination provision that conditionally allows either party to the treaty to terminate upon 45-days notice in the event of insolvency or specified regulatory actions. It is recommended that the Company ensure that all future treaties entered into conform to SSAP No. 62, paragraph 7. The Personal Excess Liability Policy (PELP) quota share treaties' are of unlimited duration. It is also recommended that the Company amend its active PELP treaties to conform to SSAP No. 62, paragraph 7.

ACCOUNTS AND RECORDS

The Company was unable to provide a detailed aging report on a policy level basis for premiums and considerations. It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Underwriting and Investment Exhibit for the Year Ended December 31, 2005

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

Statement of Financial Condition
as of December 31, 2005

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$1,332,659,043	$	$1,332,659,043	
Stocks:				
Preferred stocks	2,048,811		2,048,811	
Common stocks	45,317,962		45,317,962	
Real Estate: Properties occupied by the company	13,630,968		13,630,968	
Cash, cash equivalents and short-term investments	17,486,716		17,486,716	
Other invested assets	7,431,646		7,431,646	
Receivable for securities	3,583,978		3,583,978	
Investment income due and accrued	16,302,095		16,302,095	
Premiums and considerations:				
Uncollected premiums and agents' balances in the course of collection	7,982,588	555,415	7,427,173	
Deferred premiums, agents' balances and installments booked but deferred and not yet due	92,917,497		92,917,497	
Reinsurance: Amounts recoverable from reinsurers	921,653		921,653	
Net deferred tax asset	88,156,755	30,566,675	57,590,080	
Electronic data processing equipment	2,947,327		2,947,327	
Furniture and equipment, including health care delivery assets	22,492,146	22,492,146	0	
Receivables from parent, subsidiaries and affiliates	58,000,000	58,000,000	0	
Aggregate write-ins for other than invested assets	38,473,327	38,071,884	401,443	
Total assets	$1,750,352,512	$ 149,686,120	$1,600,666,392	

Liabilities, Surplus and Other Funds				
Losses			$ 431,373,419	(1)
Loss adjustment expenses			86,843,887	(1)
Other expenses			52,792,104	
Taxes, licenses and fees			588,853	
Unearned premiums			317,730,012	
Advance premiums			9,936,659	
Ceded reinsurance premiums payable			642,767	
Payable to parent, subsidiaries and affiliates			7,302,327	
Aggregate write-ins for liabilities			2,529,956	
Total liabilities			909,739,984	
Common capital stock		$ 3,000,000		
Gross paid-in and contributed surplus		399,106,079		
Unassigned funds (surplus)		288,820,329		
Surplus as regards policyholders			690,926,408	
Total liabilities, surplus and other funds			$1,600,666,392	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2005
Statement of Income

Underwriting Income		
Premiums earned		$1,338,515,235
Deductions:		
Losses incurred	$ 843,066,733	
Loss expenses incurred	155,696,787	
Other underwriting expenses incurred	273,620,456	
Total underwriting deductions		1,272,383,976
Net underwriting gain		66,131,259
Investment Income		
Net investment income earned	$ 68,843,712	
Net realized capital losses	(2,449,833)	
Net investment gain		66,393,879
Other Income		
Net loss from agents' or premium balances charged off	$ (3,092,006)	
Finance and service charges not included in premiums	14,018,820	
Aggregate write-ins for miscellaneous income	(1,318,058)	
Total other income		9,608,756
Net income before all other federal and foreign income taxes		142,133,894
Federal and foreign income taxes incurred		29,156,938
Net income		$ 112,976,956

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2004		$ 601,711,545
Net income	$ 112,976,956	
Change in net unrealized capital losses	(1,610,541)	
Change in net deferred income tax	(17,218,129)	
Change in nonadmitted assets	(5,464,397)	
Aggregate write-ins for gains in surplus	530,974	
Change in surplus as regards policyholders		89,214,863
Surplus as regards policyholders, December 31, 2005		$ 690,926,408

Reconciliation of Surplus as Regards Policyholders
from December 31, 2002 through December 31, 2005

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2002, per Examination			$ 385,808,060
Net income	$ 302,075,080	$	
Net unrealized capital losses		1,066,824	
Change in net deferred income tax		63,037,525	
Change in nonadmitted assets	28,877,268		
Surplus adjustments: Paid-in	37,917,420		
Aggregate write-ins for gains in surplus	352,929		
Totals	$ 369,222,697	$ 64,104,349	
Net increase in surplus as regards policyholders for the examination			305,118,348
Surplus as regards policyholders, December 31, 2005, per Examination			$ 690,926,408

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's reserves were evaluated by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis by the Casualty Actuary from the CDI, the Company's December 31, 2005 reserves for losses and loss adjustment expenses appear reasonable and have been accepted for purposes of this examination report.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Corporate Records (Page 9): It is recommended that the Company implement procedures in its board meetings to ensure compliance with California Insurance Code (CIC) Sections 1200 and 1201.

Reinsurance – Assumed (Page 11): It is recommended that the Company comply with CIC Section 1011(c).

Reinsurance – Ceded (Page 11): It is recommended that the Company ensure that all future treaties entered into conform to Statements of Statutory Accounting Principles (SSAP) No. 62, paragraph 7 and also amend its active the Personal Excess Liability Policy treaties to conform to SSAP No. 62, paragraph 7.

Accounts and Records (Page 12): It is recommended that the Company maintain documentation to support all financial statement accounts. The documentation should be prepared in sufficient detail as to allow for a full and complete audit trail from the Annual Statement to individual records.

Previous Report of Examination

None.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Laura Clements, CFE
Examiner-In-Charge
Senior Insurance Examiner (Supervisor)
Department of Insurance
State of California